



Economic Impact Analysis Virginia Department of Planning and Budget

12 VAC 30-120 – Medallion II
Department of Medical Assistance Services
August 17, 2010

Summary of the Proposed Amendments to Regulation

The proposed regulations will add the “rural exception” provision to the Medallion II program.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

The proposed regulations will add the “rural exception” provision to the Medallion II program. This proposed change is already in effect under the emergency regulations since December 30, 2009, and under Centers for Medicaid and Medicare approval of the amendment to the Managed Care Waiver effective 10/1/09.

In the absence of the “rural exception” provision, Virginia Medicaid is required to offer the enrollees at least two contracted managed care organizations or two managed care programs to choose from in Medallion II areas. If, in areas such as Culpeper, there are not two organizations to be offered to choose from, rules without the “rural exception” provision dictate that the enrollees in these areas receive their services under the fee-for-service delivery system. In order to avoid having to provide the services under the fee-for-service delivery system where there is only one contracted managed care organization, the proposed changes allow the Virginia Medicaid to enroll recipients in the one contracted managed care organization in the federally-designated rural area.

According to the Department of Medical Assistance Services (DMAS), the need for this change resulted from one of the two contracted managed care organizations exiting Culpeper

County and leaving only one remaining contracted health plan. However, the language has been drafted broadly enough so that any future localities needing to fall under this program would be included. Currently a number of other localities have only two contracted managed care organizations. If one of the managed care organizations were to leave one of these areas that would meet the federal designation of rural, they would be subject to the proposed “rural exception” provision. These areas include King George, Lancaster, Loudoun, Pittsylvania, Rockingham, Danville, Fredericksburg, Harrisonburg, Poquoson, Williamsburg, Charlotte, Fauquier, Spottsylvania, Gloucester, Isle of Wight, James City County, Stafford, and York.

The main benefit of the proposed regulations is the avoided cost difference between fee-for-service and the managed care delivery systems in areas where “rural exception” provision is applied. According to DMAS, currently Culpeper County is the only locality affected by the rural exception option at this time. In July 2010, there were 3,860 managed care enrollees in Culpeper. According to DMAS, average per capita managed care premium in rural areas is about \$301.34 per month or \$3,616.08 per year. Also, the healthcare costs under the managed care delivery system are estimated to be up to five percent lower than the costs under the fee-for-service delivery system. Thus, the proposed regulations are estimated to save the Virginia Medicaid up to \$697,903.40. There could be additional savings if more localities become subject to the proposed “rural exception” provision in the future. One half of the savings would accrue to the Commonwealth and the remaining half would accrue to the federal government since Virginia Medicaid is funded 50% by state and 50% by federal government.

In addition to the fiscal savings, the managed care delivery system offers value added services that the fee-for-service system does not. These value added services may include no co-payments for any covered service, medically necessary eyeglasses for certain members, medical case management, disease management programs, special programs to help control conditions like asthma and diabetes, well-adult checkups, 24-hour nurse line, and toll-free member services helpline. Another benefit for the managed care enrollees in the Culpeper area is being able to continue to receive their services from the providers of managed care network and avoid potential interruptions in the services they receive.

Since the proposed regulations make it possible to provide services through the managed care system, these changes have an impact on both the networks of the managed care system and

the fee-for-service system. The providers in the network of managed care organization are able to continue offering their services to Medicaid recipients. The fee-for-service providers, on the other hand, are not allowed to be the only providers offering services to the Medicaid recipients. However, it is possible that some providers belong to both networks.

The remaining proposed changes are organizational improvements, updating of citations, and clarification improvements which are not expected to create any significant economic effect.

Businesses and Entities Affected

The proposed regulations primarily affect the Medicaid enrollees and the managed care provider network in the Culpeper County. There were 3,860 enrollees and 208 healthcare providers in the managed care provider network in the Culpeper area in July 2010.

Localities Particularly Affected

The proposed regulations particularly affect Medicaid enrollees in Culpeper County at this time. There are a number of other localities that have only two contracted managed care organizations. If one of the managed care organizations were to leave one of these areas that would meet the federal designation of rural, they would be subject to the proposed “rural exception” provision. These areas include King George, Lancaster, Loudoun, Pittsylvania, Rockingham, Danville, Fredericksburg, Harrisonburg, Poquoson, Williamsburg, Charlotte, Fauquier, Spottsylvania, Gloucester, Isle of Wight, James City County, Stafford, and York. .

Projected Impact on Employment

The proposed regulations make it possible for the managed care provider network in Culpeper County to continue to provide their services to Medicaid recipients and has a positive impact on their demand for labor. On the other hand, the proposed regulations prevents the fee-for-service provider network in the Culpeper County to start serving the same recipients and has a negative impact on their demand for labor.

Effects on the Use and Value of Private Property

The proposed regulations make it possible for the managed care provider network in Culpeper County to continue to provide their services to Medicaid recipients. Maintaining the same level of business may help them maintain their profitability and help maintain their asset values. On the other hand, the proposed regulations prevent the fee-for-service provider network

in the Culpeper County to start serving the same recipients. Since the recipients will not be forced to shift to the fee-for-service provider network, a potential increase in their revenues and therefore a potential increase in their asset values may be prevented.

Small Businesses: Costs and Other Effects

With the exception of one hospital and a large national laboratory corporation servicing the Culpeper area, most of the 208 healthcare providers in the managed care provider network are believed to be small businesses. The costs and other effects on the small businesses would be the same as discussed above.

Small Businesses: Alternative Method that Minimizes Adverse Impact

There is no known alternative method that minimizes adverse impact that achieves the same goals.

Real Estate Development Costs

The proposed regulations are not expected to have any effect of real estate development costs.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 107 (09). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a

description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.